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### General Business Conditions.

**T**HE fall of the year is naturally the season of greatest trade activity. The crops go on the market at this time and cause a wide distribution of funds, the preparations for winter mean a heavy retail trade, the transportation lines are usually at their maximum traffic and nearly all industries are normally busy. Last year the volume of business crept slowly upward through the first eight months and rounded into full activity in the fall. Since then there has been no let up, and about the only difference apparent as we come again into the fall season is that prices are rising. When all agencies of production are driven to capacity an increasing demand works itself off in this manner. Notwithstanding the fact that business was good in September last year, bank clearings in the month just closed were about 40 per cent. in volume above that time. Railway traffic is up to the capacity of the lines, surpassing all records, and complaints of car shortage are heard from many quarters.

There is more confidence in the future than has been felt at any time in the last two years. This does not mean that there are no apprehensions of an industrial slump after the war, but that with the profits of the last year applied to indebtedness or added to resources, the position of the industries is inherently stronger. Moreover, there is a feeling that business is accumulating which will come forward when war orders are out of the way. In nearly all lines there is difficulty in getting orders filled. Foreign trade in ordinary merchandise in all parts of the world, is growing, because there is no other place to get the goods and this fact will prevent any accumulation of stocks until some time after the war.

#### **The Metal Industries.**

Enormous purchases of copper by foreign governments have strengthened the market position of that metal, and given assurance of a continuance of prosperity in the copper mining districts far into next year. Silver is also in a strong position, owing to the suspension of production in Mexico and the demands of Euro-

## **Economic Conditions Governmental Finance United States Securities**

NEW YORK, OCTOBER, 1916.

panean countries for coinage purposes. Considerable silver has gone from China to India, but this only means that later on the Chinese stock will have to be replenished. The price is not likely to yield much until Mexican supplies come forward again.

The iron and steel situation is stronger than ever. Prices are higher in nearly all lines. It goes without saying that no consumptive demand which can be postponed is contesting for supplies on the present level. The railways have finally come into the market for cars and other equipment which is imperatively demanded. The requirements of the ship-building industry are very heavy, and likely to be so for several years to come. General construction, and the work involved in new enterprises is light, but there is a large amount of building for the enlargement of industries that are now pushed to capacity.

#### **The Crops.**

The crop estimates have gained nothing in the past month, but with the possible exception of corn show lower figures. The wheat yield of the United States is not more than enough for bread and seed, but there is a carry-over from last year which is calculated will allow 150,000,000 bushels for export. The entrance of Greece into the war revives the probability that the Dardanelles will be opened, allowing Russian wheat to come out, an event which would have an important influence upon world prices. The Argentine crop is now in the making, coming to harvest in December. As yet it is doing well. The Canadian crop is officially estimated at 168,611,000 bushels against 376,306,000 last year. The world's crop is short.

The cotton crop has suffered further deterioration in the past month, and is probably under 13,000,000 bales. This is the second consecutive crop to be less than consumptive requirements, and prices are around 16 cents per pound, the highest level known in a normal market. The boll weevil and wet weather combined to play havoc with the crop east of the Mississippi river. Advices from Manchester

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show that the cotton goods trade there is very much disturbed over the outlook as present prices for cotton are thought to make prices for cotton goods that will be prohibitory to much of the British foreign trade.

The cotton goods industry in this country is very prosperous, notwithstanding the high price of the raw material. There is a scarcity of labor everywhere, which makes it impossible to run mills to capacity. Jobbers continue to report a very active trade for this period of the year. The retailers who were cautious in their early buying, have found trade good, and have been reordering daily. Price advances have become a regular feature, but so far they do not seem to affect the demand. Not only are prices high because raw cotton is high, but because the competition for goods makes an unusual margin for the manufacturer. The woolen goods trade is in much the same situation.

#### High Cost of Living.

The most unsatisfactory feature of the general situation is the general rise in the cost of living, which is unquestionably bearing heavily upon the people of small incomes. There is, perhaps, little comfort to them in reflecting that the conditions are temporary, as they unquestionably are. They are the direct result of the withdrawal of so many men from industry and the enormous consumptive demands of the war. These prices, however, are giving a stimulus to industry which will result in a permanent increase in the supply of all kinds of goods. In Cuba, for instance, there is great activity clearing new lands and bringing them into sugar production. The same is true in all sugar-producing countries, and it requires no prophet to tell that when the beet sugars of Europe come again into the market, prices will be lower than ever before known. The work that is being done for agriculture in this country at the present time gives promise of important results before long. The farmers are increasing their herds, sheep raising is feeling the stimulus of unusual profits, and there are many signs which indicate that the consumer will have an inning later if he can hold out until the time comes.

#### Money and Exchange.

The continued and unprecedented movement of gold into this country has put an end to any hopes that bankers may have entertained of higher rates for money during the fall season. Since the early part of May the receipts of gold at the New York Assay Office and Philadelphia mint from foreign sources has amounted to over \$300,000,000, and the customs returns shows that the net importations of gold into the country for the first eight months of the year were \$410,000,000. A considerable portion of this gold has gone to the country through the Federal Reserve system, and it is not an-

ticipated that further requirements this fall will be sufficient to noticeably disturb the New York situation. The tone during the last week has been slightly easier.

The condition of the New York Clearing House banks shows comparatively small changes in the principal items since the first of the year. We give the figures for loans and discounts, net demand deposits, cash and gold holdings in vault on December 31, 1915, and September 23, 1916:

#### Clearing House Banks, New York.

	Dec. 31, 1915	Sept. 23, 1916
Net demand deposits....	\$3,314,741,000	\$3,270,824,000
Loans and discounts.....	3,246,356,000	3,307,093,000
Cash in vault.....	519,579,000	450,057,000
Gold " .....	335,397,000	306,802,000

In view of the activity of trade and of the stock market, the steady absorption of American securities which has been going on, and the three great foreign loans, aggregating \$400,000,000 since the first of July, the small increase of loans in nine months must be regarded as very satisfactory. There is no sign of wild inflation in those figures.

It is a noteworthy fact, however, that notwithstanding the heavy importations of gold at New York, the banks of this city hold less gold and less cash than at the beginning of this year, and the same is true of the Federal Reserve Bank of New York and the reserve agent for this bank. The gold importations have all been distributed to the interior.

Surprise is expressed over the continuation of the British shipments, notwithstanding the recent creation of \$400,000,000 of new credit for the use of the governments of Great Britain, France and Russia. The best explanation is found in the new records that are being made by our exports.

#### Foreign Trade.

The following table gives the foreign trade figures for the twelve months ended with August:

1916	Exports	Imports	Excess of Exports
August .....	\$570,000,000	\$199,247,391	\$310,752,609
July .....	445,472,000	182,722,938	262,749,062
June .....	464,784,318	245,795,438	218,988,880
May .....	474,881,255	229,188,957	245,692,298
April .....	399,861,157	217,705,397	182,155,760
March .....	411,476,638	213,589,785	197,886,853
February .....	402,991,118	193,935,117	209,056,001
January .....	330,784,847	184,362,117	146,522,730
1915			
December .....	359,306,492	171,832,505	187,473,987
November .....	327,678,802	155,496,675	172,182,127
October .....	328,030,281	149,172,729	178,857,552
September .....	300,676,822	151,236,026	149,440,796

It will be seen that the balances of the last four months greatly surpass those of any other four months of the period.

#### **Foreign Sales of American Securities.**

We gave last month a calculation which indicated that the amount of American securities returned to this country and of foreign interests in this country liquidated in the two years ended June 30, 1916, was from \$1,750,000,000 to \$1,800,000,000. Reference was made therein to Mr. Loree's estimate of the amount of railway securities returned in the six months from January 31, 1915, to July 31, 1915. During the past month Mr. Loree has given out new figures, bringing his calculation down to July 31, 1916. He finds that the holdings of such securities abroad on the latter date aggregated \$1,415,628,563 par value, or \$1,110,099,090 market value; and that the amount returned in the one and one-half years was \$1,288,873,801, par value. The market value of those returned in the year from July 31, 1915, to July 31, 1914, was estimated at \$641,338,822, but no estimate on earlier market values was made. If we were to apply the same percentage of market value to par value for the entire period it would indicate that the market value of railroad securities returned since January 31, 1915, was about \$1,018,000,000. Market values, however, were lower in the first six months and these figures are perhaps \$30,000,000 to \$40,000,000 too high. The Loree inquiry does not include railroad securities returned before January 31, 1915, or which were held in this country for foreign account, or which were not paying interest or dividends. It did not include industrial securities such as United States Steel, municipal bonds or public utilities. Beside these issues there are important foreign property interests in this country, in mines, real estate, real estate mortgages and in ordinary business enterprises. The latter class of property is not so readily disposed of, however, and the bulk of the liquidation has doubtless been in the railway securities. On the whole, we are disposed to think that our figures were a little high, and that \$1,500,000,000 to \$1,600,000,000 is high enough for the liquidation of foreign interests in this country since the outbreak of the war. This does not include our foreign loans.

A conference of French and British financial authorities was held at Calais last month, which the prime ministers of both countries attended, and at which arrangements were made for virtually pooling the gold reserves of the Allies; Russia and Italy, it is said, will participate. The Bank of France has already sent large sums of gold to London, pursuant to this and previous conferences. It is a remarkable fact that the Banks of England, France and Russia all hold more gold at this time than they ever had at any time prior to the war, and the heavy shipments to this country during the last five months have not been reflected in their official statements. This indicates that the governments have had stores of gold not included in the bank reserves, probably, in the case of Great Britain, new gold from the mines.

#### **Bond and Stock Market for September.**

The bond market in September has been active and firm. The average volume of daily sales on the New York Stock Exchange to the close of business September 25th was \$3,333,000, compared with \$3,259,000 in August and \$2,608,600 in July. The average price of forty listed bonds, as compiled by the *Wall Street Journal* was 94.21 September 25th, 93.68 September 1st, 93.74 August 1st and 90.43 October 1, 1915. The fractional advance during the past month has been about equally distributed among railroad, industrial and public utility bonds. At the close of the month investment buying by both institutions and individuals is on a large scale. Increased deposits in the banks and larger dividend distributions to individuals have brought more funds into the market for investment. Foreign government short term notes are being liberally taken by banks on account of their ready market and high yield. The Russian Government 6½% Credit has been in unusually good demand, advancing to 102¼. Anglo-French 5's, American Foreign Securities 5's and British Government 5's are all active and firm.

No large foreign or domestic loans have been floated during the month, but several small issues of railroad, industrial, public utility and municipal bonds have been well taken. The Chicago, North Shore & Milwaukee Railroad sold \$3,620,000 First Mortgage 5% Gold Bonds which were offered publicly at 92½, a basis of 5.62%. This road is an electric, double track, high speed, interurban line connecting Milwaukee, Wisconsin, with Evanston, Illinois. An issue of \$4,000,000 Northern Ohio Traction & Light First Lien & Refunding 5% Gold Bonds due 1956 are being offered at 94 to yield 5.37%. A block of Minneapolis St. Paul & Sault Ste. Marie First Consolidated Mortgage 4% Bonds due 1938 have been offered on a 4.60% basis. The Metropolitan Water Board of London recently sold \$6,400,000 one year Discount Notes to New York bankers. The notes were sold to the public on a 6% basis. This is the first piece of financing in the New York market by the English municipalities. Near the end of the month, Kuhn, Loeb & Co announced a loan to the City of Paris of \$50,000,000 in five year 6 per cent. notes payable at the option of the holder either in gold coin of the United States, or in francs at 5.5 francs to the dollar. This affords an opportunity for the holder to profit by a return of French exchange to the normal rate.

City of Milwaukee, Wisconsin, 4½% bonds and City of Newark, New Jersey, 4½% bonds are being offered on a 3.90% and 3.95% basis, respectively. On account of exemption from the federal income tax which was heavily increased by the last Congress, municipals are very strong and cities with good credit are able to borrow on especially favorable terms.

A sale of \$500,000 United States 3 per cent. notes issued in exchange for 2 per cent. bonds under the Federal Reserve Act, was made in this market last week on a  $2\frac{1}{8}$  per cent. basis.

The Dominion of Canada has offered for public subscription a new \$100,000,000 Internal 5% War Loan due October 1, 1931, at  $97\frac{1}{2}$ . The issue has been heavily over subscribed. The first Canadian war loan was issued in November 1915, at  $97\frac{1}{2}$  due in ten years and bearing 5% interest. The Canadian government is therefore borrowing on slightly more favorable terms than a year ago.

#### An Active Stock Market.

Trading in stocks continues very active. For eighteen consecutive full business days up to September 29th, sales exceeded 1,000,000 shares and on the 25th over 2,300,000 shares were dealt in, the largest volume of daily sales since March, 1907. The upward swing has carried along both railroad and industrial stocks. The average price of twenty railroads as compiled by the "Wall Street Journal" was 108.53, September 25th; 104.01, September 1st and 103.89 August 1st. The average price of twelve industrials was 150.88, September 25th; 129.62, September 1st and 123.68, August 1st. United States Steel Common, International Mercantile Marine preferred and some of the copper stocks have made exceptional advances on large trading. The daily average of stock sales for the month to the close of business September 25th was 1,090,500 shares, compared with 542,815 shares in August and 353,380 shares in July.

Contrary to precedent, the present stock market is easily financed at a season of the year when the demand for money all over the country is at the highest point, when increased business is being conducted with commodity prices at a high level and when loans are being granted to foreign governments on a large scale. This condition follows a period when large quantities of American securities have been repurchased from abroad and in face of the fact that still further purchases will be necessary. There is a slackening in foreign liquidation, however, due to the decreasing supply and to the policy of pledging securities under the last loans to the British and French Governments. The continued heavy importations of gold have made loanable funds abundant and the usefulness of the Federal Reserve system with its rediscount possibilities has not yet been brought to a test. The stock market activity goes on in the face of poor crops, unfavorable railroad wage legislation and in the midst of a presidential campaign. Trading has been held in restraint for several months, due to the uncertain feeling in regard to the American industrial position after the war. With the end of the war not in sight, and with the continued need of our raw materials and renewed inquiries for munitions, the stock market is responding to record railroad and industrial earnings.

#### Government Revenues.

The treasury department estimates that the expenditures of the government for the fiscal year ended June 30, 1917, will amount to \$1,126,243,000, and that the ordinary revenues will be \$762,000,000, leaving \$364,243,000 to be provided for by extraordinary means. Of this amount, \$130,000,000 will be required for the extraordinary expense of mobilizing the national guard along the Mexican border. This amount, or whatever may be required for this purpose, the administration plans to raise by a bond issue. The remainder is \$234,243,000, of which the new revenue act is relied upon to provide \$205,000,000, leaving \$29,243,000 to be taken from funds brought over from the general fund from last year.

Although the revenue bill was amended in the Senate, and the copper taxes dropped, it is calculated that the additional taxes will quite make good the reductions. The taxes upon munitions were raised from ten to twelve and one-half per cent.

The income tax levies are about as they were fixed in the House, except that the Senate carried the progressive feature several steps further. The House stopped with a ten per cent. tax upon all income in excess of \$500,000, but under the law income in excess of \$1,000,000 and up to \$1,500,000 will pay eleven per cent., in excess of \$1,500,000 and up to \$2,000,000, twelve per cent., and in excess of \$2,000,000 thirteen per cent.

With the increase of the income taxes of course the exemptions become of greater importance, and this is reflected in the growing popularity of municipal issues. The effect is to penalize private enterprise and encourage public undertakings by making large sums available for such purposes. This means that the most capable and successful managers of business are being persuaded by the exercise of the taxing power to retire from business themselves and place their capital at the disposal of the most incapable and wasteful management in the world, to-wit: that of our constantly changing political administrations in the city, state and national governments. The common wastefulness of these administrations is notorious. Criticism of government expenditures upon public buildings, rivers and harbors, and even upon the army and navy, are always in our ears, and municipal administration is generally worse than that in the national government, but the very people who criticise most severely are usually incessant advocates of additional governmental functions.

This policy of encouraging the owners of wealth to turn it over to the state or its political subdivisions for handling is presumably supported upon a vague theory that capital so placed will be more beneficial to the community than if the owners invested it themselves. The common idea seems to be that even if it is squandered

under government management it will do more good than if used under private management, for example, in increasing the railway facilities of the country, or in electrifying the railways, so that trains may be drawn by water power instead of using up our coal supplies. Probably nobody supposes that these taxes will cause any rich man to spend any less for his own personal or family use; the one effect will be to curtail his constructive investments.

The law is liberalized in respect to losses which are made upon investments outside of regular business. Hereafter they may be offset against any gains upon the same class of investments during the year.

#### Taxation Upon Foreign Investors.

The provisions of this law make the income taxes expressly applicable to all income received by alien foreign residents from investments in American securities or properties in this country. This, in our opinion, is a mistaken policy. The reasoning is that since the foreigner derives income from this country he ought to pay taxes here, the same as our own people do. It ignores the fact that all the properties from which this income is derived do pay taxes here, that an income tax is not a tax which attaches to property but which attaches to persons, and that the citizen of another country owes and must pay income taxes to his own country. When in addition to paying income taxes to his own government we insist that he shall pay income taxes to the United States, we subject him to double taxation, and at this time, when taxation everywhere is very heavy, this will tend to diminish foreign investment in this country, and prevent such investments in the future.

One of the most serious problems to be met after the war will be that of holding the stock of gold which is now being received in payment for our extraordinary volume of exports, and which is becoming the basis of credit. Although this gold is mainly received at the port of New York it does not remain here. The stock of gold held by the associated banks of this city is not as large today as it was at the first of this year, notwithstanding the heavy receipts in the meantime. The Federal Reserve Bank of New York since it began business has paid approximately \$200,000,000 in gold through the gold settlement fund to the other reserve banks. This gold is being distributed over the country and being made the basis of bank credit. When the war ends this abnormal state of our foreign trade will end, and in the natural order of things we must expect an outflow of gold. A moderate movement will not be serious, but a heavy movement will mean that the foundation is taken from under our credit structure, and that credits all over the country must be reduced. Nothing is more important than that every possible means for controlling this gold movement shall be at our command,

and certainly nothing should be done to make that control more difficult. If we can sell back to Europe at that time some of the securities which we are now purchasing such sales will count the same as gold. We have now a great supply of these securities which have a good name abroad, which have been sold under pressure of an emergency, and which the former owners will be quite disposed to repurchase when in position to do so. Here is an important means of safeguarding ourselves against the uncertainties of the after-the-war period. Why should we set up obstacles to the repurchase of these securities and prefer to export gold?

There has been no little self-congratulation over the fact that New York was becoming a world money market, but such measures as this tend to keep foreign investors out of this market. They are an obstacle to international relations, and as such are opposed to the comity of nations, and to that growth of common interests in which is to be found the greatest security in time of financial crisis and the strongest influence for peace.

#### Retaliatory Features.

The retaliatory features are in some respects most unusual. In so far as they are intended to place in the hands of the President power to resist unjust discriminations against citizens of this country they may be theoretically justified, and presumably the President will use the powers with great caution and discretion. But the section which is said to be directed at Great Britain for having placed an embargo upon tobacco along with other articles which are classed as luxuries, is not legislation to be proud of. The British people and British government are buying the products of this country upon a scale never approached in the past, and the problem of providing means of payment if the war continues several years is one that may well cause grave apprehensions. Under the circumstances the British government is unquestionably justified in making efforts to restrict the foreign purchases of its people to articles of necessity, and there would seem to be a singular lack of propriety in our making any complaint about it. The original prohibition was modified some months ago, and importations are now permitted under regulations of the British Board of Trade. The original act and all the regulations apply to all neutral countries alike. Incidentally, it may be mentioned that Germany has prohibited the importation of tobacco except from her allies.

#### The Federal Reserve System.

The amendments to the Federal Reserve Act made at the last session of Congress do not materially alter the workings of the law, but they enlarge in some minor respects the power of the Reserve banks and of the member banks.

Authority is given the latter to subscribe an

amount not exceeding ten per cent. of their capital and surplus to the stock of one or more banks organized to do business principally in foreign countries, and member banks in towns not exceeding a population of 5,000, are authorized to act as the agent of any fire, life or other insurance company authorized to do business in the state, and to act as agent for placing loans on real estate located within one hundred miles of the bank. The authority of national banks outside of the central reserve city to make loans on real estate is also slightly liberalized.

The right of member banks to accept drafts is materially extended. Drafts drawn by foreign banks or bankers upon not more than three months sight for the purpose of supplying dollar exchange, may be accepted, and drafts having not over six months to run, which grow out of transactions involving the shipment of domestic goods, may be accepted provided warehouse receipts or shipping documents conveying title to the goods accompany them.

These acceptances may be discounted by the Federal Reserve banks when they have a maturity of not more than three months. The amount to which a bank may accept in direct trade transactions, foreign and domestic is equal to fifty per cent. of its capital and surplus and a like amount additional is permitted in exchange transactions. The amount up to which a bank may accept for a single firm or company is limited to ten per cent. of its capital and surplus, but this seems to be in addition to loans to the same parties up to a like amount.

The Federal Reserve banks are given authority to make advances to member banks for not more than fifteen days, upon the security of notes, drafts, bills of exchange or acceptances that are eligible for re-discount. This will enable the member banks to obtain funds temporarily without parting with the paper permanently.

An amendment authorizes the Reserve Board to permit member banks to carry in the Federal Reserve banks of their respective districts any portion of the reserves required by section 19 to be kept in their own vaults. That is to say, the local banks will be allowed to determine for themselves what amount of their reserves they will carry in their own vaults.

Another amendment allows the Reserve banks to use the paper acquired under the provisions of section 14 (open market transactions) as security for issues of Federal Reserve notes, the same as paper acquired direct from member banks under section 13.

#### The Gold Reserves.

The efforts of the Federal Reserve Board to obtain authority to give their notes directly in exchange for gold were by a strange spasm of

conservatism defeated in the House, the Senate having adopted the provision. This is precisely what all the great central banks of Europe do, and it is the direct and principal method by which they replenish their gold stocks. A remarkable spectacle has been presented since this war began, in all the belligerent countries, by the action of the people, in response to an appeal from the governments turning their private holdings of gold coin into the central banks in exchange for bank notes. It is done to strengthen the available gold reserves of the country, and the citizens who give this assistance receive handsomely engraved certificates which make acknowledgment of their services and which they can hand down to posterity. It was a defect in the Federal reserve system not to provide originally for such exchanges, and the failure to pass this amendment is a mistake. The Reserve banks should have every possible means at their command for strengthening their reserves of gold.

We are convinced that, in furtherance of this purpose, it will be found advisable eventually to allow Federal Reserve notes to be held as the reserves of the member banks. We are aware of the opposition to this policy and familiar with the reasons urged against it, but we do not accept them as equal in weight to the gains that would accrue from it. This country is rich in gold, but only a small portion of it is where it will be available to support the banking system in any real crisis. Inflation or any weakness in the monetary system or credit situation of a country will show its first symptoms in a demand for gold for export. This is where the real pressure will appear, and it must be met at New York. Gold scattered among the interior banks from here to the Pacific Coast will avail little. It would be necessary to take up a voluntary collection, or start a subscription list as was done to create the gold fund in 1914.

The gold stock of the country should be accumulated in much larger proportions in the vaults of the Federal reserve system, and that can never be done while gold or gold certificates are required to be kept in the reserves of all the member banks. The gold stock of the country is kept scattered by this requirement. But if the member banks were permitted to use Federal Reserve notes for their reserves they would give up their gold and gold certificates in exchange, with the result that our gold stock would be concentrated and made a vastly more effective protection to the country.

Of course it will be said that this is making one credit the basis of another, but Federal Reserve notes backed as they are now and as they would be under this policy, by so large a percentage of gold, are an exceptional form of credit. It is inconceivable that the authority to issue these notes, exercised under the publicity

which attends the operations of the system, will be seriously abused, and it is quite certain that there will be no undue inflation from the mere act of giving notes in exchange for gold. A credit at a Federal Reserve bank counts as reserve and there is no good reason why a credit on hand in the form of Federal Reserve notes should not have the same virtue.

The purpose in establishing the Federal Reserve System was to centralize reserves, and to place the banking system under strong central authority. Large powers must be conferred upon this central authority in order that it may perform the service that is expected of it. The authority to issue currency is admittedly a power which must be carefully guarded, and for this reason it is placed under the supervision of one responsible official body, instead of being left to the judgment of numerous banks. The effectiveness of the system depends largely upon the command given to this central authority over the reserve resources of the country. That is the fundamental feature of the system. It is a contradiction of the whole policy of centralizing reserves to scatter the gold stock of the country through all the member banks. We have established reserve banks without the most important reserves. It is setting up an agency to protect the country against financial crises and denying it the most effectual means.

There is no other country of the world where all the banking institutions are required to carry specified reserves, and in practically every other important country the notes of the central bank are used as the reserve cash of the other banks. The great German and French banks carry practically no cash but the notes of the Reichsbank and the Bank of France.

If the currency of the Federal Reserve system is not suitable for similar use the system must be inferior to that of other important countries, and we should not rest content with this admission.

### The Railway Wage Legislation.

There is an abundance of evidence that the action of Congress in compelling the railway companies to accede to the demands of the trainmen does not have general approval. A sense of relief was undoubtedly felt that the country was not obliged to undergo the inconvenience and losses that would have been inevitable, and the disorder that was apprehended, as the result of a strike, but the sober judgment of the country condemns the abandonment of judicial methods, and a complete surrender, without investigation, to threats of great public injury. The members of Congress who voted for the measure generally acknowledged that the policy could not be justified upon any plea but the one which justifies surrender to a foreign enemy, to-wit: that for the sake of non-combatants it is necessary to yield to superior force, without considering the merits of the case.

That timorous decision does not sit well with the American people. There is something repugnant in the idea of bringing the power of the government to enforce the demands of a comparatively small group of men, under threat of mischief they may do to the community, without any inquiry as to the reasonableness of their demands.

We, in this country, have had a great deal to say in the last two years about the low state of civilization in Europe as evidenced by the war. These comments have been based, presumably, upon a conviction that the conflicting interests of nations should be adjusted by some kind of judicial procedure, according to reason and established principles of justice, instead of by brute force. We seem to have been unanimously of the opinion, as critics of Europe, that it is fundamental to civilization to have such an orderly method of settling disagreements, and that all men shall be willing to accept settlement of their grievances in this manner. But in this railway controversy inquiry and reason were given no place; the terms were dictated by one side, and Congress took the ground that there was nothing to do but make the other side submit, or the public would suffer dire consequences.

### **Practical Features of The Issue.**

It is singular that in the discussion of this subject so little attention has been generally given to the practical phases of the eight hour day in train service. It is treated by very eminent gentlemen as on the same basis with other demands for an eight hour day, but evidently there are special reasons why this demand should not be enforced in an arbitrary manner. The railway divisions are already established as approximately one hundred miles in length. At the division terminals, freight yards, engine houses, repair shops and other structures have been constructed which in the aggregate represent a large investment. These terminal points have become important towns, based in many instances largely upon their population of railway employees, and a removal of this population to new division points would seriously affect local trade and real estate values. The railway employees, trainmen, shopmen and others, who own homes at the division points, would be involved in this general loss. The idea of shortening the divisions therefore has not been considered either by the railway officials or the brotherhood officials; both sides assume that the train runs will remain the same? How then is the time of trainmen on duty to be shortened?

The officials say that the trainmen do not want it shortened, but are aiming simply at more overtime and higher pay. It is evident that a run which now takes ten hours and continues to take ten hours under the new arrangement will yield two hours overtime and a twenty-five per cent. increase of pay. The reply made by the trainmen is that by cutting down the length of the trains and running faster, a run of one hundred miles can be made in eight hours instead of ten.

But this policy would nullify much of the great expenditure which has been made in recent years for the express purpose of increasing train loads. This has been the marked development in railroading and, but for the economies thus effected it would have been impossible for the roads to have made the numerous wage advances that have been made, or to have met the increasing cost of supplies and equipment, without greater advances in their charges. The cost of moving freight increases with the speed of the train and of course the public is interested in all legitimate savings in transportation costs. The figures for traffic on the Chicago & Northwestern railway show that the train load has been raised from an average of 210 tons no longer ago than 1910 to 491 tons in the year ended June 30, 1916, and this has brought an increase in the revenue per train mile run from \$2.32 to \$3.28 although the average freight rate per ton mile was lower in the latter year than in the former. Economic results like this ought not to be surrendered without consideration.

There is another phase of the subject in which train service differs from continuous labor. Overtime is the result of delays in making the run, and the time is spent in waiting. It is true the men are on duty, and that waiting is irksome, but in determining the hours which shall constitute a day's work, and comparing train service with other kinds of labor, it certainly makes a difference whether men put in a full day at exhausting toil or part of the time waiting.

There is still another factor in the case. Whether trains cover their runs within schedule time or not depends largely upon the trainmen themselves, and shortening the time will not only cause a legitimate and necessary increase of overtime but offers an opportunity and inducement to make overtime when it is unnecessary.

All of these features are peculiar to the eight hour day in train service. They distinguish it from the eight hour question as applied to most of the trades, where it is advanced from humane consideration and upon the theory that men in the long run will accomplish as much in eight hours of continuous work as in ten hours. No discussion is candid that does not recognize these differences and they make it particularly desirable that an inquiry to determine the public interest should precede legislation.

#### The Right to Strike.

Senator Underwood offered an amendment to the measure authorizing the Interstate Commerce Commission to fix the hours of labor and wages of railway employes, after the report of the special commission created by this act had been made. His proposal did not include any authority to coerce the employes or restrain them from striking if indisposed to accept the action of the Commission, but it was voted down because it was understood to be unacceptable to the brotherhood chiefs, and on the ground that it implied an

authority in the government to make men work against their will. It is difficult to see how the latter view can be seriously urged. There is no suggestion that men should be compelled to continue in the railway service if they desired to quit as individuals for the purpose of taking other employment. There is clearly a difference between quitting in good faith for this reason, and joining in a conspiracy to quit for the purpose of stopping traffic and forcing an advance of wages. It is the same difference that exists between withholding goods from market because of your own choice you do not wish to sell, and joining a conspiracy with others to force up prices. The latter is an illegal restraint of trade, and effectively punished.

If the railways were owned by the government would the employes be permitted to fix their own pay and strike to enforce their demand? Would the employes of the postal service be permitted to do so? Either proposition is absurd. Places in the railway service and in the mail service should be regarded as positions of trust; both services are vital to the public, and nobody should be allowed to hold them and take advantage of his position to extort something that an impartial inquiry would not award on the merits of the case. The fact that employes have sought and obtained the places they hold does not vest in them the right either to fix their own pay or to suspend the public service. The rights of the many cannot be sacrificed to favor a few.

#### Public Interests Paramount.

Employment of any kind that in the language of the law is "affected of a public interest" is evidently on a different basis from employment in industries not so recognized. In the private industries great liberty is given to employers and employees to fight out their differences. One may favor the policy of arbitration in the private industries without approving of its being made compulsory, for the public interest is a minor consideration in the majority of such cases, and the propriety of interference is questionable.

But the public has a right to maintain services that are necessary to the community welfare, and to protect itself against arbitrary power in any hands. The courts have always maintained that right against capital in control of any utility or service. The railway owners have had to bow to this authority, and the public has an equal right to say by law that railway employes shall not conspire to stop train service. The fact that the railways are operated under private ownership makes no difference with the principle; the public has an interest in the service that is paramount to the interest of either owners or employes. Investors must make their investments, and employes must take service, with full knowledge that the public interest is supreme. When this is thoroughly understood this situation will not be repeated. The law as passed, simply

provides for a commission of three persons to investigate the effect of the eight hour standard work-day upon the railways and report its findings to the President and Congress. Pending this report the railway companies are required to pay the present ten hour wage for eight hours, but after thirty days from the date of the report the law expires by limitation and the whole subject will be open to controversy again.

### The Interests of Labor.

It is greatly to be regretted that organized labor should so often lay itself open to the criticism of taking the narrow and limited view, and of obstructing instead of promoting industry. It is perhaps a natural result of controversies with individual employers, often as illiberal and limited in view as themselves, that the labor leaders should come to assume an inevitable class conflict between employers and wage-earners, and in their efforts to strengthen the unions preach this doctrine.

With the desire of men to better their condition, of course, no fault is to be found; on the contrary, every encouragement and stimulus should be given to it. The right kind of efforts to this end are beneficial to the whole community, and this furnishes the correct test of every effort and policy: Is it consistent with the general welfare? No class of people can make much progress by policies that are antagonistic to the community as a whole, and certainly the wage-earning class cannot do so, for outside of agriculture, the wage-earning class includes the larger part of the community.

When a farmer makes a study of the soil and the science of breeding, and thereby increases the yield of his farm, he enlarges his own income, but also benefits the community, and gains of this character are always welcome.

The fundamental fault of the labor leaders is in thinking of the wage-earners as a class apart from the community, instead of as being themselves the major portion of the community. They lay all emphasis upon jobs and wages, and apparently forget that the earning of wages is only one-half the process of getting the necessities and comforts they want in their homes; the other half is in disbursing their wages to buy these things, and if everything they want is made scarcer and dearer, the effect is the same to them as though their wages were lowered. The effect of higher production costs and higher selling prices is to curtail purchases and lessen the demand for labor, so that the scheme of restricting production is a failure, even as a means of making more jobs. If transportation costs are made higher by the wage advances granted to the railway trainmen, the burden will fall on the general public, and be paid, for the most part, by the farmer and wage-earner.

There was some talk that if the railway men went on a strike they would be supported by the Federation of Labor, which would call out the wage-earners of its organization in all trades. This would be carrying the idea of class conflict to an extreme where its fallacy would be apparent. The effect would be to stop the production and distribution of goods; but for whose consumption are goods produced and distributed? It is certainly not chiefly for the 357,515 persons who paid income taxes this year and their families. They would suffer comparatively slight inconvenience. It is to supply the wants of the other 100,000,000 people, and chiefly to supply the wants of those who depend upon their weekly earnings and weekly purchases, that the vast machinery of business is required. No attack upon the organization by which the necessities of life are supplied can be as serious to the small group of rich people as it is to the great body of the people. One million people could not suffer as much deprivation as one hundred millions, even if their resources were no greater. The operation of the railways is not so important to the people who own them as to all the other people of the community; the operation of the coal mines is not so important to the owners as to the consumers of fuel, and so it is throughout industry—any interruption or disablement affects the great body of consumers more seriously than the owners.

### General Eight Hour Day.

The eight-hour day must be considered in the same light. It is advocated usually as something to be conceded by employers, but if it increases the cost of things, the increase will be paid by the entire community on the basis of consumption. If the hours of work are to be reduced in all town and city employments, and in transportation, unless the same amount of work is done in eight hours, more people will have to be drawn from the farms, and the cost of food and farm products will be higher in consequence. We take the following extract from the letter of a country banker in an agricultural section, dwelling upon this point:

The first requisite for society's existence is food, and I believe that the influences which I have mentioned have so raised wages as to attract away from the farms so much human energy as to seriously curtail food production, and we all know that before the war we were not sparing a great surplus and at present I believe the prospects are for a shortage of everything but hay. I am satisfied that people in the cities have but slight knowledge of the impossibility of obtaining farm laborers. It is not a question of farmers knowing how to increase production, it is simply do the best he can with the help he can get.

It is perfectly idle to discuss an economic question from a purely sentimental point of view. If we are to be practical we must know what the effects of a proposed action will be. When the eight-hour day comes it will either

cost nothing, because it does not reduce production, or it will cost the entire community, including the wage-earner, to the extent of the loss in production, and in the latter event the cost will be most serious, of course, to people of small incomes.

#### The Sympathetic Strike.

Not only is it impossible for the wage-earners to separate their interests from those of the community as a whole, but it is unwise for them to make common war against all employers. There are different kinds of employers as there are different kinds of people who work for wages; in fact there are few employers who have not been wage-earners. As a matter of justice the employer who is disposed to be fair is entitled to be dealt with accordingly, and it is to the interest of wage-earners in the long run that an employer shall gain by being fair. It is by this means that progress will be made. The basis of civilized life is the sanctity of agreements. Modern business cannot be carried on without recognition of this principle. The business man who does not conform to it is an outlaw, and if organized labor aspires to be a legitimate and useful factor in the life of the country it must

conform. When an employer enters into an agreement with his employees or with an organization which represents them, which is to govern his relations with them for a specified term, he does so with the understanding that he may go on and make contracts based upon that agreement. The sympathy strike, under which workmen are called out without any grievance against their own employers, and in violation of a contract, is destructive of all orderly and definite relations in industry.

#### Fear of Unemployment.

No one can make a study of the attitude of labor organizations toward machinery and all changes in the methods of production which seem to dispense with labor, without recognizing that the fear of unemployment is behind it all, and this anxiety should enlist sympathetic consideration. It has been the spectre at the workingman's fireside for generations, and planted apprehensions deeply in his mind. He sees that the direct and immediate effect of machinery is to displace labor, and he hears even experienced and presumably well-informed men talk of over-production. It is not strange that he should fail to follow the new influences to their ultimate effects or that he should rebel

#### STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS SEPTEMBER 22, 1916. (In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'np'l's	Kas.City	Dallas	S.F'r'sco	Total
Gold coin and certif's. Settlement fund. Cr. Balances	7,567	159,844	10,362	14,868	4,880	3,727	28,267	5,941	5,858	4,108	3,481	9,808	258,711
Gold Settlement Fund.....	15,815	9,857	17,179	11,431	11,615	2,870	21,631	2,258	3,525	10,539	4,359	6,712	117,791
Gold Redemption Fund .....	5	250	50	89	437	244	200	87	30	123	419	7	1,941
Total gold reserves.....	23,387	169,951	27,591	26,388	16,932	6,841	50,098	8,286	9,413	14,770	8,259	16,527	378,443
Legal tender notes. Silver certif's and Sub. coin....	135	2,317	359	992	70	720	1,513	1,093	212	35	134	22	7,642
Total Reserves.....	23,522	172,268	27,900	27,380	17,002	7,561	51,611	9,379	9,625	14,805	8,393	16,540	386,085
% redemption fund—F. R. bank notes .....											400	100	500
Bills discounted, Members	801	914	159	756	5,806	3,995	2,968	1,500	1,875	1,751	6,736	385	27,706
Commercial paper .....	10,764	26,888	11,705	7,220	1,796	2,477	5,575	5,623	3,178	1,411	604	6,645	35,884
Bill bought in open market													
Total bills on hand.....	11,565	27,800	11,864	7,976	7,602	6,472	8,543	7,183	5,051	3,162	7,340	7,030	111,590(c)
Investment U. S. Bonds...	2,972	3,174	2,825	6,304	1,074	1,508	8,463	2,714	3,372	9,617	2,898	2,634	47,553
One-year U.S. Treas. notes	250	1,282	818	760	684	526	560	570	350	616	529	804	8,039
Municipal Warrants.....	4,505	4,789	2,431	2,696	88	286	4,219	1,525	1,010	370	2,220		24,137
Total Earning Assets.....	19,292	37,047	17,938	17,738	9,446	8,792	22,075	11,992	9,733	13,765	10,765	12,688	191,319
Federal Reserve Notes, net													
Due from other F. R. Banks net.....	859	9,718	507	345			1,390		1,561			1,700	16,080
All other resources.....	3,144	4,403	2,381	752	1,519	8,847	7,064	2,026	1,534	721	2,403	29,266(b)	
All other resources.....	200	5,200	62	268	195	204	749	330	82	181	858	122	8,451
<b>TOTAL RESOURCES.....</b>	<b>47,017</b>	<b>228,636</b>	<b>46,497</b>	<b>48,110</b>	<b>27,395</b>	<b>18,076</b>	<b>84,672</b>	<b>28,765</b>	<b>23,077</b>	<b>30,685</b>	<b>20,837</b>	<b>33,462</b>	<b>631,701</b>
LIAABILITIES													
Capital Paid in.....	5,024	11,601	5,222	5,987	3,365	2,490	6,676	2,794	2,588	3,044	2,681	3,921	55,423
Government Deposits.....	3,368	4,871	5,975	2,047	3,470	3,748	3,528	3,523	1,072	1,502	2,130	4,713	39,947
Reserve Deposits, net.....	38,478	212,164	29,689	40,068	16,091	9,489	74,468	20,878	19,407	23,994	8,904	24,828	518,456
Federal Reserve Notes—not Fed. Reserve Bank													
Notes in circulation.....													
Due to other F. R. Banks net.....													
All other Liabilities.....	147		5,528		112	14							356
<b>TOTAL LIABILITIES.....</b>	<b>47,017</b>	<b>228,636</b>	<b>46,497</b>	<b>48,110</b>	<b>27,395</b>	<b>18,076</b>	<b>84,672</b>	<b>28,765</b>	<b>23,077</b>	<b>30,685</b>	<b>20,837</b>	<b>33,462</b>	<b>631,701</b>

(a) Total Reserve notes in circulation, 191,635

(b) After deduction of items in transit between Federal Reserve Banks, 29,266, the Gold Reserve against Net deposit and note Liabilities is 69,68 and the cash reserve is 71,0%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve against net Liabilities on Federal Reserve Notes in circulation, 71,5%.

(c) Maturities of bills discounted and loans: within 10 days, 24,378; to 30 days, 24,238; to 60 days, 37,893; other maturities, 25,081; Total: 111,590.

against sacrificing immediate interests for a general good which he is unable to see. It looks to him as though greater facilities of production made the wage-earner's job more precarious and piled up products faster than they could be sold. Nothing else would accomplish so much for industry as the dissipation of this idea, and nothing will do so much to dissipate it as steady employment.

Over-production is, of course, possible in particular branches of industry, but unbalanced production is a better term for such a situation. If all the farmers would set to work to grow nothing but wheat there would be too much wheat for the market in one year. If in a shoe factory too many men were set to making heels there would be an over-production of heels, and that department would have to slow down until the other departments caught up. There are inevitably many such unbalanced situations in an industrial society where every man has the liberty to choose his own employment and hunt work where he pleases. It is a rough adjustment at best, but it is possible that there may be a greater degree of co-operation for the support of industry than has been given in the past. The development of strong industrial units and of a well organized banking system are favorable to such efforts. The recovery from the panic of 1907 was more rapid than from any previous panic of like severity chiefly because the financial resources of the country were greater. One of the reasons long argued for reform in our banking system was this, that it would do much to protect the country from the extremes of credit inflation, unbalanced development, and consequent depression. The necessary expenditures for public improvements in this country are now an important factor in industry, and these may be wisely planned to help in maintaining the industrial balance. There is wanted a definite constructive policy to this end, in which the public authorities, the various branches of industry and the investment forces of the country shall be co-ordinated. It is a large undertaking, but once the purpose is formed, the organization to accomplish it will develop. Every period of reaction and depression is the result of industry becoming unbalanced, and when this occurs every branch of industry and

every kind of business suffers. There is always work to be done, both at home and abroad, which will afford business for every American industry and employment for every American worker, if the organization can be formed to handle it, and there can be a good understanding of how mutual interests are served.

#### Will Labor Co-operate After the War.

In the present condition of the markets the labor organizations are able to force many concessions which appear to come from employers, but they get them because the employers are able to add the cost to the price of the product. The scarcity of labor and the demand for goods the world over creates this temporary situation. Since the general cost of living has risen there is justification for the claim of the individual wage-earner that his wages should be increased, although every advance contributes to carry the movement further. A scarcity of goods can never be made up to everybody by rising prices; the only way a scarcity can be actually met is by a reduction of consumption.

What gives the greatest concern, however, to those who look to the future and endeavor to plan for industry after these abnormal conditions are past, is the fact that in many instances labor leaders are openly declaring that they not only intend to make the most of the present situation to gain concessions, but they intend to make no counter concessions hereafter. What they get now they intend to hold. This, of course, is upon the theory that they are getting these concessions from the employers, while in fact the cost is being borne by the public, including themselves. When the war is over, and the men in the armies return to work, and instead of having a great market for our goods abroad we find ourselves unable to sell abroad because our prices are too high, the problem of how to keep our mills and shops running will be one in which the labor organizations are vitally interested. An intelligent observer has only to look at the figures of our monthly exports to see how much of the production of our factories is going abroad at the present time. The war supplies go regardless of price, but that will not be true of peace trade. The situation will call for intelligent co-operation by employers and wage-earners; both are interested in avoiding a slump of industry and a costly period of unemployment.

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